

## Message Text

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ACTION EUR-12

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: THE STOCKTAKING OF THE COMMON AGRICULTURAL POLICY:  
STATUS REPORT

REF: (A) EC A-358 (B) EC BRUSSELS 1719 (C) EC A-098

1. THE EC COMMISSION'S "STOCKTAKING" OF THE CAP, PRESENTED TO THE COUNCIL OF AGRICULTURAL MINISTERS IN MARCH 1975 (REF. B AND C), HAS NOW BEEN EXAMINED BY THE EUROPEAN PARLIAMENT, THE COMMUNITY'S ECONOMIC AND SOCIAL COMMITTEE AND COPA. THE COUNCIL, WHICH THUS FAR HAS HAD LITTLE TO SAY ABOUT THE REPORT, IS EXPECTED TO CONSIDER IT SOMETIME THIS FALL PRIOR TO THE DISCUSSION OF THE 1976/77 PRICE PROPOSALS. THE MISSION VIEW OF THE IMPACT OF THE STOCKTAKING EXERCISE AND OF THE LIKELIHOOD OF COMMUNITY ACTION ON THE VARIOUS RECOMMENDATIONS OF THE STOCKTAKING REPORT WERE REPORTED IN DETAIL IN REF. A. THIS CABLE SUMMARIZES REF. A.

2. THE MISSION FEELS THAT SIGNIFICANT MEASURES, ALONG THE LINES RECOMMENDED IN THE STOCKTAKING REPORT, ARE LIKELY TO BE TAKEN IN THE AREAS OF STOCKPILING, LONG-TERM CONTRACTS, AND THE ADJUSTMENT OF GRAIN PRICE RATIOS. WHILE SOME

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MEASURES INSTITUTING PRODUCER RESPONSIBILITY IN THE DAIRY SECTOR

MAY BE ADOPTED, SUCH MEASURES ARE UNLIKELY TO BE VERY STRONG. MAJOR INITIATIVES ARE NOT EXPECTED WITH REGARD TO STRUCTURAL REFORM OR MONETARY COMPENSATORY AMOUNTS. SOMEWHAT GREATER USE MAY BE MADE OF DIRECT PAYMENTS TO FARMERS AND CONSUMER SUBSIDIES BUT A SUBSTANTIAL SHIFT TOWARDS THESE MEASURES IS BLOCKED BY THEIR HEAVY EXPENSE AND BY FARM GROUP SUSPICION.

3. U.S. INTEREST: THE ADJUSTMENT OF GRAIN PRICE RATIOS ALONG THE LINES DESIRED BY THE COMMISSION WOULD PROBABLY RESULT IN REDUCED U.S. EXPORTS OF FEEDGRAINS TO THE COMMUNITY, ALTHOUGH IT COULD DECREASE COMPETITION BETWEEN EC AND US WHEAT IN THIRD COUNTRY MARKETS. BUT MUCH WILL DEPEND ON THE NATURE OF THE MEASURES ACTUALLY DECIDED BY THE COMMUNITY. A HIKE IN FEEDGRAIN PRICES TO THE CURRENT WHEAT PRICE LEVEL, WITH AN ADDITIONAL BOOST IN THE PRICE OF BREAD-QUALITY WHEAT WOULD BE PARTICULARLY UNFAVORABLE FOR US TRADE. WIDESPREAD USE OF LONG-TERM CONTRACTS WOULD ALSO UNFAVORABLY AFFECT EXPORT PROSPECTS FOR US AND OTHER THIRD COUNTRY SUPPLIERS BY BLOCKING OUT PORTIONS OF THE WORLD MARKET. A MORE ACTIVE STOCKPILING POLICY ON THE PART OF THE COMMUNITY--TO THE EXTENT IT WOULD ENTAIL A GREATER WILLINGNESS TO HOLD STOCKS--WOULD, ON THE OTHER HAND, TEND TO BENEFIT AGRICULTURAL EXPORTING COUNTRIES. THE ADOPTION OF SUCH A POLICY BY THE COMMUNITY COULD ALSO MAKE THEM MORE AMENABLE TO U.S. INITIATIVES IN THE IWC. THERE IS A DANGER, HOWEVER, THAT ADOPTION OF A MORE ACTIVE STOCKPILING POLICY IN TANDEM WITH SUBSTANTIAL LONG-TERM CONTRACT COMMITMENTS WOULD EFFECT AN ARTIFICIAL INCREASE IN THE LEVEL OF DEMAND FACING COMMUNITY PRODUCERS, VEILING THE NEED FOR ADJUSTMENT OF CAP PRICING POLICIES.

4. THE POLITICAL ATMOSPHERE IN WHICH THE STOCKTAKING REPORT WILL BE DISCUSSED BY THE COUNCIL WILL BE HIGHLY CHARGED. DIFFICULT DECISIONS MUST BE MADE IN THE WINE AND DAIRY SECTORS AND, IN VIEW OF THE ALTERNATIVES, COMMUNITY EXPENDITURES FOR AGRICULTURAL SUPPORT WILL ALMOST CERTAINLY UNDERGO A SHARP INCREASE. THE GERMANS, WHO INSISTED ON THE STOCKTAKING, WILL BE SEEKING SOME SORT OF COMMITMENT TO LIMIT THE COSTS OF THE CAP, IN THIS EFFORT, THEY WILL GET LITTLE HELP FROM THE STOCKTAKING EXERCISE. THE OVERALL THRUST OF THE STOCKTAKING EXERCISE HAS BEEN TO FOCUS ATTENTION ON THE "INCOMPLETENESS" OF THE CAP RATHER THAN ITS EXCESSIVE COSTS. AND SOME OF THE RECOMMENDATIONS OF THE STOCKTAKING REPORT (E.G., STOCKPILING, LONG-TERM CONTRACTS) WOULD CREATE NEW COMMITMENTS FOR EC LIMITED OFFICIAL USE

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EXPENDITURE. ONE EC OFFICIAL HAS SUGGESTED THAT THE GERMAN INITIATION OF THE STOCKTAKING WAS A "TRAP" SET FOR SCHMIDT.

5. PROPONENTS OF THE "COMMUNITY PREFERENCE" ISSUE HAVE MADE EFFECTIVE USE OF THE REVIEW OF THE STOCKTAKING TO ADVANCE THEIR CLAIM THAT THE CAP HAS BEEN TOO MUCH ORIENTED TOWARDS CERTAIN REGIONS (THE NORTHERN COUNTRIES), AND CERTAIN PRODUCTS (GRAINS AND MILK). THE EUROPEAN PARLIAMENT HAS ACKNOWLEDGED THIS BIAS, FINDING THAT

THE PRINCIPLE OF COMMUNITY PREFERENCE HAS BEEN "INADEQUATELY  
RESPECTED" WITH REGARD TO THE PORK, POULTRY, AND FRUIT AND  
VEGETABLE SECTORS. THE PUSH TO STRENGTHEN "COMMUNITY PREFERENCE"  
COULD RESULT IN NEW IMPORT RESTRICTIONS AND/OR AIDS TO EC PRO-  
DUCERS WHICH WOULD CAUSE DIFFICULTIES FOR U.S. EXPORTERS, PARTIC-  
ULARLY IN THE FRUIT AND VEGETALBLE SECTOR. GREENWALD

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